



INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS SEPTEMBER 2005

Summary:

- Indonesian non-oil and gas exports increased 24.5 percent in the first eight months of 2005 compared to the same period in 2004, with machinery and electrical tools, fats and palm oil, and coal leading these exports.
- According to the Investment Coordinating Board (BKPM), investment approvals rose to USD 7.3 billion for the first eight months of 2005, an increase of 73.3 percent YoY.
- The Ministry of Trade (MOT) said it would review export regulations aimed at preventing textile transshipment through Indonesia.
- The MOT announced on September 12 that it would issue sugar import permits in October 2005, the first time the Ministry has permitted sugar imports since February 2004.
- Trade Minister Mari Pangestu said on September 7 that a Korean investor would relocate to Indonesia footwear production facilities worth USD 30 million.
- On September 7, Indonesian air carrier Lion Air announced that it had finalized a contract to purchase 60 Boeing 737-900 aircraft worth USD 3.9 billion.
- The Directorate General for Taxation announced on September 8 that the government has exempted spare parts of motor vehicles from import duty.
- Domestic automobile sales increased 29.4 percent in the first eight months of 2005, according to industry data.
- The Government of Indonesia (GOI) criticized international shipping company Lloyd's Insurance's July 2005 decision to designate the Malacca Strait as a "war risk" area.
- Indonesia held the third ASEAN Ports and Shipping Conference from September 21-22 in Surabaya.
- The Ministry of Communication announced on September 26 it would auction 3G telecommunication networks in November 2005.

(Note: This report uses the September 30 exchange rate of Rp 10,290/USD. End Note).

Exports Continue Strong Growth

The Central Statistics Office (BPS) announced on September 3 that Indonesia's exports reached USD 54.8 billion for January through August 2005, an increase of 23.9 percent year-on-year (YoY). Non-oil and gas exports accounted for USD 42.6 billion of the eight-month total, a YoY increase of 24.5 percent. Meanwhile, January through August 2005 imports grew to USD 38.6 billion, a 32.2 percent increase YoY. Overall, Indonesia's trade surplus reached USD 16.2 billion for January through August 2005, an 8.0 percent increase YoY.

Table 1: Indonesian Trade Performance: January-August 2005

In USD billions	Jan - Aug 2004	Jan - Aug 2005	Percent Increase 2005/2004
Export	44.2	54.8	23.9
Oil and Gas	10.0	12.2	21.8
Non-Oil and Gas	34.2	42.6	24.5
Agricultural	1.6	1.9	26.4
Industrial	30.2	35.9	18.6
Mining and others	2.4	4.7	98.4
Import	29.2	38.6	32.2
Oil and Gas	7.1	11.5	61.6
Non-Oil and Gas	22.1	27.2	22.8
Balance of Trade	15.0	16.2	8.0

Source : Central Statistic Agency (BPS)

Industrial exports, which account for 65.5 percent of total exports, expanded 18.6 percent YoY to USD 35.8 billion from January through August. Machinery and electrical tools, fats and palm oils, and coal were Indonesia's top three non-oil and gas exports for the period comprising 10.9, 6.9 and 6.4 percent respectively. Japan remains Indonesia's largest export destination, followed by the United States and Singapore.

Table 2: Indonesia's Top 10 Non-oil and Gas Exports
January-August 2005 (In USD billions)

Commodity	Jan-Aug 2004	Jan-Aug 2005	Percent of Total Jan - Aug 2005
Mechanical Appliances	4.0	4.6	10.9
Fats and Palm Oils	2.7	2.9	6.9
Coal	1.5	2.7	6.4
Rubber and Rubber Products	1.9	2.2	5.0
Copper, Ash and Residues	0.8	2.0	4.7
Wood and Wood Products	2.0	2.0	4.7
Garment - not knitted	1.8	1.9	4.6
Nickel	0.4	0.7	1.7
Tin	0.3	0.5	1.4
Steel and Iron Steel	0.2	0.4	0.9

Source : Central Statistic Agency (BPS)

Table 3: Indonesia: Main Non-Oil and Gas Export Destinations
January-August 2005 (FOB value, in USD billions)

Country of Destination	Jan - Jul 2004	Jan - Jul 2005	Percent of Total (2005)
Japan	5.2	6.2	14.6
U.S.A	5.3	6.1	14.4
Singapore	2.9	4.8	11.2
China	2.1	2.5	5.9
Malaysia	1.8	2.0	4.9
South Korea	1.1	1.5	3.6
European Union	5.5	6.4	15.1
Taiwan	0.9	1.1	2.6
Australia	0.7	0.7	1.7
Others	8.4	11.0	26.0
TOTAL	34.2	42.6	100.0

Source : Central Statistic Agency (BPS)

Table 4: Indonesia: Import by Broad Economic Categories
January-August 2005 (in USD billions, CIF value)

In USD billions, CIF value	Jan- Jul 2004	Jan - Jul 2005	Percent Increase 2005/2004	Share of Total Jan-Aug 2005
Total Import	29.2	33.6	32.2	100.0 %
Consumption Goods	2.4	2.9	22.2	7.7 %
Raw Materials	22.9	30.3	32.6	78.4 %
Capital Goods	3.9	5.4	36.4	13.9 %

Source : Central Statistic Agency (BPS)

[Investment Approvals Rise](#)

According to the BKPM, foreign investment approvals rose to USD 7.28 billion from January through August 2005, an increase of 73.3 percent from USD 4.20 billion for the same period in 2004. Meanwhile, domestic investment approvals from January to August 2005 also rose to Rp 33.3 trillion (USD 3.2 billion) from Rp 31.6 trillion (USD 3.1 billion), a 5.2 percent increase YoY.

[GOI to Review Export Regulations](#)

MOT Director General of International Trade Diah Maulida announced on September 19 that her directorate is reviewing export regulation aimed at tightening procedures for textile and garment exports. Existing regulations authorize the MOT to issue certificates of origin (CO) for Indonesian textile and garments exports. MOT is now considering restricting the issuance of Cos to specific areas of the country. Specifically, only trade offices in certain textile and garment production areas in Java, North Sumatra, Batam, Bali and Bonded Zones would issue certificates of origin. Media reports noted, however, that it is easy to acquire a fake CO in Indonesia, which has encouraged illegal transshipment of textile and garments product from other Asian countries through Indonesia.

[GOI to Allow Sugar Imports](#)

Minister of Trade Marie Pangestu announced on September 12 that the MOT would issue new permits for the importation of between 200,000 to 250,000 tons sugar from mid-October and likely through April 2006. The move is designed to meet domestic sugar demand during the month of Ramadan (October 5 – November 4). Pangestu also said her Ministry was studying whether it would be necessary to approve more licensed sugar importers. At present, Indonesia has four designated sugar importers: state plantation companies PTPN IX, PTPN X and PTPN XI, and PT Rajawali Nusantara.

[New Investment in Footwear Sector](#)

Minister of Trade Mari Pangestu announced on September 7 that Korean footwear manufacturer Poong Won will invest USD 30 million in Indonesia this year as part of its regional production relocation strategy. Poong Won is a licensed producer of the German sportswear brand Adidas and plans to relocate 24 percent of its current production in China to Indonesia and Vietnam. Poong Won plans to establish a factory this year in Indonesia with seven footwear production lines, creating some 7,000 jobs. The Indonesian Footwear Association (Aprisindo) expressed optimism that Indonesia's footwear exports would reach USD 1.6 billion in 2005 compared to USD 1.35 billion in 2004. With upcoming new investments in the sector, Aprisindo predicts that Indonesian footwear exports will exceed USD 2 billion in 2006 and USD 4 billion by 2010.

[Lion Air Procures Boeing Aircraft](#)

Indonesia's discount carrier Lion Air announced on September 7 that it had finalized a contract to purchase 60 new Boeing 737-900 ER aircraft worth USD 3.9 billion. The contract follows a June 30 agreement in which Lion Air agreed to purchase 30 units of the 737-900 ER and 30 units of the 737-800 or 737-900. Delivery of the aircraft will occur from early 2007 through 2009.

[GOI Exempts Vehicle Spare Parts from Import Duty](#)

According to a September 8 media report, the GOI has exempted some motor vehicle spare parts from import duties, specifically those used to assemble motors for export. Imported spare parts will still require a surveyor's certificate of inspection. Importing companies will also need to submit their annual import and export plans, along with information about their installed capacity and export contracts with foreign buyers.

[Domestic Auto Sales Accelerate](#)

The Indonesian Automotive Industries Association (Gaikindo) announced on September 9 that car sales in the first eight months of 2005 reached 395,728 units, an increase of 29.4 percent from the same period in 2004. In August alone, sales rose to 50,562 units, an increase of 30.7 percent YoY. According to Gaikindo, commercial vehicles made up the bulk of August sales.

Table 5: Indonesia: Automotive Sales (unit)

Year	August 2005	January - August 2005
2005	50,562	395,728
2004	38,676	305,848
2003	30,052	234,120
2002	27,215	212,993
2001	27,471	202,555

Source: Gaikindo, compiled with other sources.

[Indonesian Global Investment Forum](#)

The Office of the Coordinating Minister for Economy and the Investment Coordinating Board (BKPM), with support from the Euromoney Investment Information Services Firm, held Global Investment Forums in London (September 8-9) and New York (September 15-16). The forums were aimed at attracting foreign investment to Indonesia, increasing Indonesian exports, and updating foreign investors on Indonesia's economic outlook and the GOI's overall economic strategy. According to BKPM Chairman Muhammad Luthfi, Indonesia needs roughly USD 426 billion in investment to sustain an annual economic growth of 6.6 percent until 2009.

U.S. Department of State Assistant Secretary for Economic and Business Affairs E. Anthony Wayne addressed the forum in New York on September 15. Assistant Secretary Wayne expressed hope that growing U.S. investment in Indonesia will contribute to the GOI's overarching goals of promoting long-term economic growth, creating jobs, and reducing poverty. Assistant Secretary Wayne also added that sound economic policies and good governance are key contributors to economic growth and sustainable development. He said he believed that the GOI was on the right track in setting an ambitious agenda to curb corruption, attract investment, and stabilize the economy.

[Indonesia Criticizes Insurer Lloyds](#)

A September 12 Office of Coordinating Ministry for the Economy newsletter criticized international insurer Lloyds Insurance's July decision to designate the Malacca Strait as a "war risk" area, a move that increased insurance premiums for shippers using the Strait.

[Ports and Shipping Conference in Surabaya](#)

Minister of Transportation Hatta Rajasa opened the "Third ASEAN Ports and Shipping Conference" in the East Java city of Surabaya on September 21-22. The conference aimed to strengthen existing relations among ASEAN port regulators, in particular nurturing information exchanges and problem-solving among port administrators. Global issues related to transportation and logistics were the main topics of discussion. As many as 200 participants from 15 countries attended the conference.

[GOI to Tender 3G Networks](#)

The Minister of Communication Sofyan Djalil announced on September 26 that the government will hold a third-generation services (3G) auction in November. The auction will allow international mobile phone service providers to bid on the provision of 3G services, such as mobile video and internet. Telkomsel, Indosat and Excelcomindo are three Indonesian mobile phone operators actively pursuing licenses to operate 3G networks in Indonesia.
